Exhibit C to

Supplementary Amendment

Ex parte Lundgren, Appeal 96-0519 (BPAI 1998)

THIS OPINION WAS NOT WRITTEN FOR PUBLICATION

The opinion in support of the decision being entered today (1) was not written for publication in a law journal and (2) is not binding precedent of the Board.

Paper No. 49

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE BOARD OF PATENT APPEALS AND INTERFERENCES

Ex parte CARL A. LUNDGREN

Appeal No. 96-0519
Application 08/093,516[1]

ON BRIEF

Before URYNOWICZ, HAIRSTON and FLEMING, ***Administrative Patent Judges***.

FLEMING, ***Administrative Patent Judge***.

[1] Application for patent filed July 16, 1993. According to appellant, the application is a continuation of Application 07/954,795, filed September 30, 1992, abandoned; which is a continuation of Application 07/794,791, filed November 19, 1991, abandoned; which is a continuation of Application 07/649,217, filed January 25, 1991, abandoned; which is a continuation of Application 07/277,142, filed November 29, 1988, abandoned.

DECISION ON APPEAL

This is a decision on appeal from the final rejection of claims 1, 2, 6, 7, 14 through 16, 19 through 22, 32 and 35, all of the claims pending in the application. Claims 3 through 5, 8 through 13, 17, 18, 23 through 31, 33 and 34 have been canceled.

The invention relates to a method and apparatus for reducing incentives for industrial collusion.

Independent claim 1 is reproduced as follows:

1. A method for reducing the degree to which prices exceed marginal costs in an industry and for reducing incentives for industry collusion between a primary firm and a set of comparison firms in said industry, said set of comparison firms including at least one firm, said primary firm having a manager who exercises administrative control over said primary firm's operations during a sampling period, the method comprising the steps of:

a) choosing a performance standard from a set of performance standards;

b) measuring a performance of said primary firm with respect to said chosen performance standard for said sampling period;

c) measuring a performance of each of said comparison firms with respect to said chosen performance standard for said sampling period, said measurement of performance for each of said comparison firms forming a set of comparison firm performance measures;

d) determining a performance comparison base based on said set of comparison firm performance measures;

e) comparing said measurement of performance of said primary firm with said performance comparison base;

f) determining a relative performance measure for said primary firm based on said comparison of said primary firm measurement of performance and said performance comparison base;

g) determining a managerial compensation amount derived from said relative performance measure according to a monotonic managerial compensation amount transformation; and

h) transferring compensation to said manager, said transferred compensation having a value related to said managerial compensation amount.

The Examiner does not rely on any references.

Claims 1, 2, 6, 7, 14 through 16, 19 through 22, 32 and 35 stand rejected under 35 U.S.C. § 101 as being non-statutory subject matter.

Rather than reiterate the arguments of Appellant and the Examiner, reference is made to the briefs[2] and answers[3] for the respective details thereof.

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[2] Appellant filed an appeal brief on May 9, 1995. On January 11, 1996, Appellant filed a reply appeal brief. The Examiner considered and responded to this reply brief with a supplemental Examiner's answer, thereby entering this reply brief. On September 9, 1996, Appellant filed a reply appeal brief. The Examiner considered and responded to this reply brief with a supplemental Examiner's answer, thereby entering this reply brief. On October 14, 1997, Appellant filed a reply appeal brief. The Examiner stated in the Examiner's letter mailed April 2, 1998 that the reply brief has been entered.

[3] The Examiner responded to the brief with an Examiner's (continued...)

OPINION

After a careful consideration of the record before us, we will not sustain the 35 U.S.C. § 101 rejection of claims 1, 2, 6, 7, 14 through 16, 19 through 22, 32 and 35.

With respect to the mathematical algorithm exception, the Federal Circuit in ***State Street Bank & Trust Co. v. Signature Financial Group, Inc.***, 149 F.3d 1368, 1373, 47 USPQ2d 1596, 1600 (Fed. Cir. 1998) first identified the judicially created three categories that are not patentable (laws of nature, natural phenomena and abstract ideas) citing ***Diamond v. Diehr***, 450 U.S. 175, 209 USPQ 1 (1981). The opinion went on to note "the mathematical algorithm is unpatentable only to the extent that it represents an abstract idea" and is thus not "useful." ***State Street Bank***, 149 F.3d at 1373 & n.4, 47 USPQ2d at 1600-01 & n.4. Later in its opinion, the court returned to this issue: "[T]he mere fact that a claimed invention involves inputting numbers, calculating numbers, outputting numbers, and storing numbers, in and of itself, would not render it nonstatutory subject matter, unless, of course, its operation does not produce a 'useful,

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[3](...continued)
answer, mailed August 8, 1995. The Examiner mailed supplemental Examiner's answers on June 13, 1996 and September 12, 1997.

concrete and tangible result.'" ***State Street Bank***, 149 F.3d at 1374, 47 USPQ2d at 1602. In this case, the court stated that "the transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm . . . because it produces 'a useful, concrete and tangible result' . . . ." ***State Street Bank***, 149 F.3d at 1373, 47 USPQ2d at 1601.

Significantly, the court concluded its analysis of the mathematical algorithm issue as follows: "The question of whether a claim encompasses statutory subject matter should not focus on ***which*** of the four categories of subject matter a claim is directed to . . . but rather on the essential characteristics of the subject matter, in particular, its practical utility." ***State Street Bank***, 149 F.3d at 1375, 47 USPQ2d at 1602. With respect to the Freeman-Walter-Abele test, the Federal Circuit held the district court erred in applying it. According to the court, after ***Diehr*** and ***Chakrabarty***[4] were decided by the Supreme

[4] ***Diamond v. Chakrabarty***, 447 U.S. 303, 206 USPQ 193 (1980).

Court, the test had "little, if any, applicability to determining the presence of statutory subject matter." ***State Street Bank***, 149 F.3d at 1374, 47 USPQ2d at 1601.

In regard to the Business Methods Exception, the court began:

> We take this opportunity to lay this ill-conceived exception to rest. Since its inception, the 'business method' exception has merely represented the application of some general, but no longer applicable legal principle . . . . Since the 1952 Patent Act, business methods have been . . . subject to the same legal requirements for patentability as applied to any other process or method.

State Street Bank, 149 F.3d at 1375, 47 USPQ2d at 1602.

The district court had expressed concern that the claims were so broad they would foreclose "virtually any computer-implemented accounting method necessary to manage this type of financial structure." The Federal Circuit responded to this concern: "Whether the patent's claims are too broad to be patentable is not to be judged under § 101, but rather under §§ 102, 103 and 112." ***State Street Bank***, 149 F.3d at 1377, 47 USPQ2d at 1604.

The court ended this section by quoting PTO's Guidelines:

> 'Office personnel have had difficulty in properly treating claims directed to methods of doing business. Claims should not be categorized as methods of doing business. Instead such claims should be treated like any other process claims.'

The court agreed that "this is precisely the manner in which this type of claim should be treated." ***State Street Bank***, 149 F.3d at 1377, 47 USPQ2d at 1604.

Appellant's claim 1 recites a

> method for reducing the degree to which prices exceed marginal costs in an industry and for reducing incentives for industry collusion between a primary firm and a set of comparison firms in said industry . . . the method comprising the steps of:
>
> . . .
>
> h) transferring compensation to said manager, said transferred compensation having a value related to said managerial compensation amount.

We find that the claim language recites subject matter that is a practical application of shifting of physical assets to the manager. We note the remaining claims also recite the above practical application. Therefore, we find statutory subject matter.

We have not sustained the rejections of claims 1, 2, 6, 7, 14 through 16, 19 through 22, 32 and 35 under 35 U.S.C. § 101. Accordingly, the Examiner's decision is reversed.

REVERSED

STANLEY M. URYNOWICZ, JR.)
Administrative Patent Judge)
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) BOARD OF PATENT
KENNETH W. HAIRSTON) APPEALS AND
Administrative Patent Judge) INTERFERENCES
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MICHAEL R. FLEMING)
Administrative Patent Judge)

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